

**Tennessee Board of Regents  
The University of Memphis**

**For the Year Ended  
June 30, 2001**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

February 28, 2002

The Honorable Don Sundquist, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and

The Honorable Charles W. Manning, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, Tennessee 37217  
and

Dr. Shirley C. Raines, President  
The University of Memphis  
Memphis, Tennessee 38152

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, The University of Memphis, for the year ended June 30, 2001. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a certain deficiency, which is detailed in the Results of the Audit section of this report. The university's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/mb  
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State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**The University of Memphis**  
For the Year Ended June 30, 2001

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDING

### **Bank Reconciliations Were Not Properly Completed**

University personnel did not always properly complete bank reconciliations. Reconciliations for the months of July 2000 through December 2000 were not completed until January 2001. In addition, the June 2001 reconciliation, which was not completed until September 2001, contained several discrepancies (page 6).

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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**Audit Report  
Tennessee Board of Regents  
The University of Memphis  
For the Year Ended June 30, 2001**

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**Tennessee Board of Regents  
The University of Memphis  
For the Year Ended June 30, 2001**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Board of Regents, The University of Memphis. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**BACKGROUND**

In 1909, The General Assembly of Tennessee enacted a general education law providing for the establishment and maintenance of three normal schools in the state, one of which was to be located in Memphis. On September 15, 1912, West Tennessee State Normal School opened and, in 1925, became a senior college. On July 1, 1957, the institution was designated Memphis State University, and on July 1, 1994, the name was changed to The University of Memphis.

The university is a fully accredited institution of higher education and comprises the Cecil C. Humphreys School of Law, the graduate school, and the six undergraduate colleges: the College of Arts and Sciences, the Fogelman College of Business and Economics, the College of Education, the Herff College of Engineering, the College of Communication and Fine Arts, and University College.

**ORGANIZATION**

The governance of The University of Memphis is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 2000, through June 30, 2001, and was conducted in accordance with government auditing standards generally accepted in the United States of America. Financial statements are presented for the year ended June 30, 2001, and for comparative purposes, the year ended June 30, 2000. The University of Memphis is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.**



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## **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2001, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by government auditing standards generally accepted in the United States of America. A reportable condition, along with a recommendation and management's response, is detailed in the finding and recommendation section of this report. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the university's financial statements.



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
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**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

November 2, 2001

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of The University of Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 2001, and have issued our report thereon dated November 2, 2001. As discussed in Note 10, the university changed the threshold for capitalizing equipment. Also, as discussed in Note 17, the university implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain less significant instances of noncompliance, which we have reported to the university's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

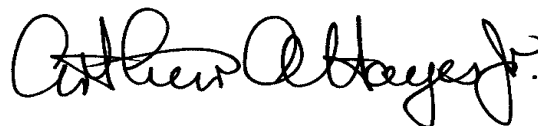
One reportable condition was noted concerning bank reconciliations that were not properly completed. This condition is described in the Finding and Recommendation section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the university's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/mb

## **FINDING AND RECOMMENDATION**

### **Bank reconciliations were not properly completed**

#### **Finding**

University of Memphis personnel did not always properly complete bank reconciliations. Reconciliations for the months of July 2000 through December 2000 were not completed until January 2001. In addition, the June 2001 reconciliation, which was not completed until September 2001, contained several discrepancies. The discrepancies included reconciling items that could not be explained or for which supporting documentation could not be located, bank errors that did not appear to be communicated to the bank or followed up to ensure correction of the error, journal entries that were recorded during the year to correct bank account differences that were included as reconciling items, and checks listed as outstanding that were not included on the outstanding check listing. In addition, the final revision of the June 2001 reconciliation did not indicate who prepared the reconciliation and when, or who reviewed the reconciliation and when.

With the discrepancies noted, management cannot be assured that the bank accounts reconcile. The university has experienced turnover in the position responsible for completing bank reconciliations as well as the manager position responsible for ensuring that bank reconciliations are done. However, this does not absolve upper management from ensuring that bank reconciliations are properly completed in a timely manner. If adequate documentation had been maintained, the reconciling items could have been explained.

#### **Recommendation**

The Accounting Manager or, in the case of turnover in the Accounting Manager position, the Vice President of Business and Finance should ensure that bank reconciliations are properly completed each month. Adequate documentation should be maintained to support the reconciling items. Communications with the bank to resolve problems should be adequately documented and followed up to ensure correction of the problem.

#### **Management's Comment**

We concur with the finding. High employee turnover during the audit period contributed to the errors along with problems interfacing the university's cash receipting and financial aid disbursement system with the general ledger system. All discrepancies noted in the audit are being researched and will be corrected before the end of the fiscal year. Monthly bank reconciliations for fiscal year 2002 are being prepared and will be reviewed and approved before the end of the fiscal year by the Assistant Vice President for Finance and the Vice President for Finance.



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**Independent Auditor's Report**

November 2, 2001

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of The University of Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2001, and June 30, 2000, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

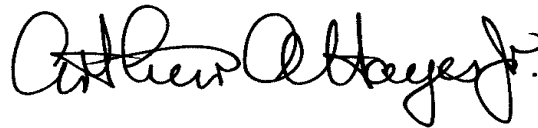
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, The University of Memphis, as of June 30, 2001, and June 30, 2000, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan  
November 2, 2001  
Page Two

As discussed in Note 10, the university changed the threshold for capitalizing equipment. Also, as discussed in Note 17, the university implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2001, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/mb

TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
BALANCE SHEETS  
JUNE 30, 2001, AND JUNE 30, 2000

<u>ASSETS</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash (Notes 2 and 3)	\$ 15,906,123.34	\$ 16,236,790.84	Liabilities:		
Investments (Note 4)	14,373,475.14	13,828,370.30	Accounts payable	\$ 3,422,978.91	\$ 3,087,521.90
Accrued interest receivable	172,251.62	102,990.78	Accrued liabilities	10,108,784.55	9,346,224.37
Accounts receivable (net of allowance			Student deposits	185,346.78	182,945.71
of \$2,779,365.26 at June 30, 2001, and			Deferred revenue	10,475,135.89	9,467,012.66
\$2,070,310.59 at June 30, 2000)	7,366,458.36	4,770,176.28	Checks payable	-	466,985.56
Due from restricted funds	4,000,000.00	-	Compensated absences	5,897,235.13	5,439,563.78
Inventories	428,467.99	362,212.38	Total liabilities	30,089,481.26	27,990,253.98
Prepaid expenses and deferred charges	95,724.05	143,627.36			
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	4,554,482.18	3,117,630.79
			Allocation for encumbrances	1,199,102.15	713,887.40
			Allocation for designated appropriations	2,846.60	6,623.22
			Allocation for designated student fees	4,006,218.98	2,691,833.78
			Discretionary allocations:		
			Allocation for subsequent budget	3,900,000.00	3,612,000.93
			Allocation for conferences and institutes	1,276,339.35	1,379,769.06
			Allocation for compensated absences	(5,897,235.13)	(5,439,563.78)
			Unallocated	3,211,265.11	1,371,732.56
			Total fund balances	12,253,019.24	7,453,913.96
Total general	42,342,500.50	35,444,167.94	Total general	42,342,500.50	35,444,167.94

TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
BALANCE SHEETS  
JUNE 30, 2001, AND JUNE 30, 2000

<u>ASSETS</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Auxiliary enterprises:			Auxiliary enterprises:		
Cash (Notes 2 and 3)	3,938,166.79	3,328,634.42	Liabilities:		
Investments (Note 4)	2,758,456.65	2,739,921.65	Accounts payable	127,704.98	20,699.73
Accounts receivable (net of allowance of \$434,536.95 at June 30, 2001, and \$404,712.85 at June 30, 2000)	<u>515,731.35</u>	<u>403,533.66</u>	Accrued liabilities	71,058.42	53,670.97
			Student deposits	317,451.00	297,100.00
			Deferred revenue	176,086.59	108,970.17
			Compensated absences	<u>86,200.05</u>	<u>78,571.89</u>
			Total liabilities	<u>778,501.04</u>	<u>559,012.76</u>
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	373,090.12	305,671.77
			Allocation for encumbrances	1,950.00	-
			Discretionary allocations:		
			Allocation for contingencies	679,723.50	647,918.47
			Allocation for compensated absences	(86,200.05)	(78,571.89)
			Unallocated	<u>5,465,290.18</u>	<u>5,038,058.62</u>
			Total fund balances	<u>6,433,853.75</u>	<u>5,913,076.97</u>
Total auxiliary enterprises	<u>7,212,354.79</u>	<u>6,472,089.73</u>	Total auxiliary enterprises	<u>7,212,354.79</u>	<u>6,472,089.73</u>
Total unrestricted	<u>49,554,855.29</u>	<u>41,916,257.67</u>	Total unrestricted	<u>49,554,855.29</u>	<u>41,916,257.67</u>



TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
BALANCE SHEETS  
JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001	June 30, 2000		June 30, 2001	June 30, 2000
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Restricted:			Restricted:		
Cash (Notes 2 and 3)	721,456.08	689,708.14	Liabilities:		
Grants receivable	11,876,389.77	7,417,205.47	Accounts payable	307,866.51	302,988.39
Prepaid expenses and deferred charges	34,267.15	30,080.37	Accrued liabilities	1,021,031.36	846,253.92
			Due to current unrestricted funds	4,000,000.00	-
			Total liabilities	5,328,897.87	1,149,242.31
			Fund balance	7,303,215.13	6,987,751.67
Total restricted	12,632,113.00	8,136,993.98	Total restricted	12,632,113.00	8,136,993.98
Total current funds	\$ 62,186,968.29	\$ 50,053,251.65	Total current funds	\$ 62,186,968.29	\$ 50,053,251.65
Loan funds:			Loan funds:		
Cash (Notes 2 and 3)	\$ 1,072,450.50	\$ 570,076.04	Liabilities:		
Notes receivable (net of allowance of \$2,380,150.88 at June 30, 2001, and \$2,337,769.49 at June 30, 2000)	3,506,889.40	3,773,533.51	Accounts payable	\$ 111,499.17	\$ 94,936.89
Accrued interest receivable (net of allowance of \$1,245,708.98 at June 30, 2001, and \$1,124,616.66 at June 30, 2000)	71,587.97	58,316.80	Total liabilities:	111,499.17	94,936.89
Accounts receivable	32,827.85	26,268.99	Fund balances:		
			U.S. government grants refundable	2,330,136.42	2,206,397.77
			University funds:		
			Restricted - matching	298,248.12	274,920.69
			Restricted - other	1,943,872.01	1,851,939.99
			Total fund balances	4,572,256.55	4,333,258.45
Total loan funds	\$ 4,683,755.72	\$ 4,428,195.34	Total loan funds	\$ 4,683,755.72	\$ 4,428,195.34

TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
BALANCE SHEETS  
JUNE 30, 2001, AND JUNE 30, 2000

<u>ASSETS</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Endowment and similar funds:			Endowment and similar funds:		
Cash (Notes 2 and 3)	\$ 260,012.12	\$ 154,432.71	Fund balances:		
Investments (Note 4)	<u>4,717,742.92</u>	<u>4,669,140.41</u>	Endowment	\$ 4,016,165.53	\$ 3,861,983.61
			Quasi-endowment:		
			Unrestricted	<u>961,589.51</u>	<u>961,589.51</u>
Total endowment and similar funds	\$ <u>4,977,755.04</u>	\$ <u>4,823,573.12</u>	Total endowment and similar funds	\$ <u>4,977,755.04</u>	\$ <u>4,823,573.12</u>
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash (Notes 2 and 3)	\$ 2,231,118.67	\$ 5,412,935.81	Liabilities:		
Investments (Note 4)	8,548,050.64	8,127,891.54	Accounts payable	\$ <u>470,393.83</u>	\$ <u>156,912.71</u>
LGIP deposit - capital projects	5,935,665.07	1,611,570.45			
Accrued interest receivable	141,413.35	57,638.32	Total liabilities	<u>470,393.83</u>	<u>156,912.71</u>
Accounts receivable	80,344.60	79,599.10			
Due from retirement of indebtedness	<u>6,000,000.00</u>	<u>-</u>	Fund balance:		
			Unrestricted (Note 5)	18,477,990.37	14,366,719.54
			Restricted (Note 5)	<u>3,988,208.13</u>	<u>766,002.97</u>
			Total fund balances	<u>22,466,198.50</u>	<u>15,132,722.51</u>
Total unexpended plant	<u>22,936,592.33</u>	<u>15,289,635.22</u>	Total unexpended plant	<u>22,936,592.33</u>	<u>15,289,635.22</u>

TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
BALANCE SHEETS  
JUNE 30, 2001, AND JUNE 30, 2000

<u>ASSETS</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Renewals and replacements:			Renewals and replacements:		
Cash (Notes 2 and 3)	5,426,888.04	3,379,903.63	Liabilities:		
Investments (Note 4)	4,444,093.75	5,951,907.10	Accounts payable	70,867.95	272,168.46
Accrued interest receivable	9,531.25	68,971.43			
			Fund balance:		
			Unrestricted (Note 5)	9,809,645.09	9,128,613.70
Total renewals and replacements	9,880,513.04	9,400,782.16	Total renewals and replacements	9,880,513.04	9,400,782.16
Retirement of indebtedness:			Retirement of indebtedness:		
Cash (Notes 2 and 3)	280,324.15	734,149.69	Liabilities:		
Interest rate reserve fund with TSSBA	5,607.61	129,493.60	Accrued interest payable	538,131.55	224,870.70
Accrued interest receivable	178,768.30	117,682.98	Accrued liabilities	106,629.53	90,825.97
Accounts receivable	11,631,721.41	13,864.00	Due to unexpended plant funds	6,000,000.00	-
			TSSBA indebtedness (Note 6)	5,014,006.47	-
			Total liabilities	11,658,767.55	315,696.67
			Fund balance:		
			Restricted	437,653.92	679,493.60
			Total fund balances	437,653.92	679,493.60
Total retirement of indebtedness	12,096,421.47	995,190.27	Total retirement of indebtedness	12,096,421.47	995,190.27

TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
BALANCE SHEETS  
JUNE 30, 2001, AND JUNE 30, 2000

<u>ASSETS</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Investment in plant:			Investment in plant:		
Land	14,299,839.50	14,104,854.45	Liabilities:		
Buildings	161,932,907.51	140,413,457.10	TSSBA indebtedness (Note 6)	46,039,890.54	43,632,919.47
Improvements other than buildings	15,476,782.16	14,935,435.79			
Equipment	39,338,968.34	37,335,711.12	Fund balance:		
Library books	59,315,482.29	59,148,821.30	Net investment in plant	292,422,334.96	277,407,300.31
Other library holdings	32,069,944.57	30,632,120.07			
Construction in progress	16,028,301.13	24,469,819.95			
Total investment in plant	338,462,225.50	321,040,219.78	Total investment in plant	338,462,225.50	321,040,219.78
Total plant funds	\$ 383,375,752.34	\$ 346,725,827.43	Total plant funds	\$ 383,375,752.34	\$ 346,725,827.43
Agency funds:			Agency funds:		
Cash (Notes 2 and 3)	\$ 518,744.57	\$ 533,491.56	Liabilities:		
Accounts receivable	25,241.81	31,144.70	Accounts payable	\$ 39,291.13	\$ 19,067.22
			Deposits held in custody for others	504,695.25	545,569.04
Total agency funds	\$ 543,986.38	\$ 564,636.26	Total agency funds	\$ 543,986.38	\$ 564,636.26

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>								
Unrestricted current fund revenues	\$ 197,936,100.31	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	13,594,209.88	-	-	-	-	-	-	-
State appropriations	-	2,864,400.00	-	-	2,603,722.52	-	-	-
Federal grants and contracts	-	26,551,563.24	38,080.00	-	-	-	13,864.00	-
State grants and contracts	-	3,561,651.08	-	-	-	-	-	-
Local grants and contracts	-	479,630.15	-	-	-	-	-	-
Private gifts, grants, and contracts	-	7,790,347.36	-	14,433.42	3,494,238.24	-	11,948,914.61	-
Endowment income	-	1,838,730.80	71,791.51	-	-	-	-	-
Investment income	-	154,928.78	38,941.28	533.36	1,028,962.96	540,455.95	381,660.85	-
Interest on loans receivable	-	-	405,734.06	-	-	-	-	-
Tennessee State School Bond Authority debt proceeds	-	-	-	-	15,160,620.05	-	-	-
Equipment use charges	-	-	-	-	-	1,291,900.07	-	-
Expended for plant facilities (including \$5,646,696.98 charged to current fund expenditures)	-	-	-	-	-	-	-	19,580,467.31
Retirement of indebtedness	-	-	-	-	-	-	-	1,717,081.80
Other (Note 9)	-	10,272.10	84,921.33	139,215.14	55,300.00	-	16,272.15	728,230.09
Total revenues and other additions	211,530,310.19	43,251,523.51	639,468.18	154,181.92	22,342,843.77	1,832,356.02	12,360,711.61	22,025,779.20
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>								
Educational and general expenditures	189,771,467.61	39,237,679.50	-	-	-	-	-	-
Auxiliary enterprise expenditures	9,447,040.01	17,079.44	-	-	-	-	-	-
Indirect costs recovered	-	3,456,241.95	-	-	-	-	-	-
Refunded to grantor	-	46,748.19	12,560.21	-	-	-	-	-
Loan cancellations and write-offs	-	-	59,847.26	-	-	-	-	-
Administrative and collection costs	-	-	-	-	-	-	62,692.67	-
Provision for doubtful accounts	-	-	293,052.34	-	-	-	-	-
Expended for plant facilities	-	-	-	-	12,077,872.53	1,855,897.80	-	-
Expended for noncapital items	-	-	-	-	3,718,504.97	1,533,071.74	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,717,081.80	-
Interest on indebtedness	-	-	-	-	-	-	3,166,590.31	-
Disposal of plant facilities	-	-	-	-	-	-	-	1,396,915.53
Library holding revaluation	-	-	-	-	-	-	-	1,489,776.15
Increase in indebtedness	-	-	-	-	-	-	11,597,572.47	4,124,052.87
Other (Note 9)	-	191,497.89	47,703.27	-	-	-	-	-
Total expenditures and other deductions	199,218,507.62	42,949,246.97	413,163.08	-	15,796,377.50	3,388,969.54	16,543,937.25	7,010,744.55

TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u>								
<u>(DEDUCTIONS)</u>								
Mandatory:								
Loan fund matching grant	(12,693.00)	-	12,693.00	-	-	-	-	-
Principal and interest	(4,023,071.91)	-	-	-	-	-	4,023,071.91	-
Nonmandatory:								
Restricted	-	13,186.92	-	-	(13,186.92)	-	-	-
Retirement of indebtedness	(1,507,963.58)	-	-	-	(54,227.61)	-	1,562,191.19	-
Unexpended plant	(474,974.25)	-	-	-	854,424.25	(379,450.00)	-	-
Renewals and replacements	(973,217.77)	-	-	-	-	2,617,094.91	(1,643,877.14)	-
Total transfers	(6,991,920.51)	13,186.92	12,693.00	-	787,009.72	2,237,644.91	3,941,385.96	-
Net increase (decrease) for the year	5,319,882.06	315,463.46	238,998.10	154,181.92	7,333,475.99	681,031.39	(241,839.68)	15,015,034.65
Fund balances at beginning of year	13,366,990.93	6,987,751.67	4,333,258.45	4,823,573.12	15,132,722.51	9,128,613.70	679,493.60	277,407,300.31
Fund balances at end of year	\$ 18,686,872.99	\$ 7,303,215.13	\$ 4,572,256.55	\$ 4,977,755.04	\$ 22,466,198.50	\$ 9,809,645.09	\$ 437,653.92	\$ 292,422,334.96

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<b>REVENUES AND OTHER ADDITIONS</b>								
Unrestricted current fund revenues	\$ 183,515,609.71	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	12,958,502.91	-	-	-	-	-	-	-
State appropriations	-	2,774,800.00	-	-	3,780,416.78	-	-	-
Federal grants and contracts	-	26,253,859.32	18,762.00	-	-	-	13,864.00	-
State grants and contracts	-	2,593,402.51	-	-	-	-	-	-
Local grants and contracts	-	577,557.78	-	-	-	-	-	-
Private gifts, grants, and contracts	-	7,109,031.61	12,105.20	29,269.07	298,376.25	-	-	298,200.00
Endowment income	-	1,645,791.13	65,356.43	-	-	-	-	-
Investment income	-	157,281.90	25,372.98	471.46	552,944.10	567,844.20	466,423.05	-
Interest on loans receivable	-	-	441,622.41	-	-	-	-	-
Tennessee State School Bond Authority debt proceeds	-	-	-	-	11,352,401.91	-	-	-
Equipment use charges	-	-	-	-	-	1,252,613.71	-	-
Expended for plant facilities (including \$6,078,471.90 charged to current fund expenditures)	-	-	-	-	-	-	-	21,718,619.92
Retirement of indebtedness	-	-	-	-	-	-	-	1,460,800.93
Library holding revaluation	-	-	-	-	-	-	-	317,191.09
Other (Note 9)	-	12,678.17	50,144.51	145,883.39	350.85	-	-	1,107,798.57
Total revenues and other additions	196,474,112.62	41,124,402.42	613,363.53	175,623.92	15,984,489.89	1,820,457.91	480,287.05	24,902,610.51
<b>EXPENDITURES AND OTHER DEDUCTIONS</b>								
Educational and general expenditures	181,245,498.55	36,783,900.28	-	-	-	-	-	-
Auxiliary enterprise expenditures	8,459,036.71	17,271.90	-	-	-	-	-	-
Indirect costs recovered	-	3,564,689.89	-	-	-	-	-	-
Refunded to grantor	-	52,203.98	8,782.73	-	-	-	-	-
Loan cancellations and write-offs	-	-	28,963.70	-	-	-	-	-
Administrative and collection costs	-	-	1,736.65	-	-	-	120,818.09	-
Provision for doubtful accounts	-	-	746,734.65	-	-	-	-	-
Expended for plant facilities	-	-	-	-	13,521,117.62	2,119,030.40	-	-
Expended for noncapital items	-	-	-	-	5,185,290.18	1,380,306.17	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,460,800.93	-
Interest on indebtedness	-	-	-	-	-	-	1,825,889.98	-
Disposal of plant facilities	-	-	-	-	-	-	-	831,408.39
Library holding revaluation	-	-	-	-	-	-	-	374,604.69
Increase in indebtedness	-	-	-	-	-	-	-	11,352,401.91
Other (Note 9)	384,910.69	207,847.04	44,844.26	14,235.10	-	-	-	-
Total expenditures and other deductions	190,089,445.95	40,625,913.09	831,061.99	14,235.10	18,706,407.80	3,499,336.57	3,407,509.00	12,558,414.99

TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds			Endowment and Similar Funds	Plant Funds			
	Unrestricted	Restricted	Loan Funds		Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u>								
<u>(DEDUCTIONS)</u>								
Mandatory:								
Loan fund matching grant	(6,254.00)	-	6,254.00	-	-	-	-	-
Principal and interest	(3,274,017.62)	-	-	-	-	-	3,274,017.62	-
Nonmandatory:								
Retirement of indebtedness	(1,276,364.50)	-	-	-	-	-	1,276,364.50	-
Unexpended plant	(683,646.50)	(673,133.02)	-	-	6,223,916.27	-	(4,867,136.75)	-
Renewals and replacements	(1,098,442.75)	-	-	-	(121,846.66)	1,220,289.41	-	-
Total transfers	(6,338,725.37)	(673,133.02)	6,254.00	-	6,102,069.61	1,220,289.41	(316,754.63)	-
Net increase (decrease) for the year	45,941.30	(174,643.69)	(211,444.46)	161,388.82	3,380,151.70	(458,589.25)	(3,243,976.58)	12,344,195.52
Fund balances at beginning of year	13,321,049.63	7,162,395.36	4,544,702.91	4,662,184.30	11,752,570.81	9,587,202.95	3,923,470.18	294,569,852.56
Cumulative effect of change in accounting principle (Note 10)	-	-	-	-	-	-	-	(29,506,747.77)
Fund balances at beginning of year as restated	13,321,049.63	7,162,395.36	4,544,702.91	4,662,184.30	11,752,570.81	9,587,202.95	3,923,470.18	265,063,104.79
Fund balances at end of year	\$ 13,366,990.93	\$ 6,987,751.67	\$ 4,333,258.45	\$ 4,823,573.12	\$ 15,132,722.51	\$ 9,128,613.70	\$ 679,493.60	\$ 277,407,300.31

The notes to the financial statements are an integral part of this statement.



TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 2001

	Unrestricted	Restricted	Total
<b>REVENUES</b>			
Tuition and fees	\$ 70,333,626.34	\$ -	\$ 70,333,626.34
State appropriations	97,499,300.00	2,864,400.00	100,363,700.00
Federal grants and contracts	2,923,813.31	26,069,618.79	28,993,432.10
State grants and contracts	187,751.74	3,561,651.08	3,749,402.82
Local grants and contracts	1,379,684.77	479,630.15	1,859,314.92
Private gifts, grants, and contracts	7,402,490.95	8,421,152.08	15,823,643.03
Endowment income	-	1,838,730.80	1,838,730.80
Sales and services of educational activities	14,978,891.60	-	14,978,891.60
Sales and services of auxiliary enterprises	13,594,209.88	-	13,594,209.88
Other sources	3,230,541.60	165,200.88	3,395,742.48
Total current revenues	211,530,310.19	43,400,383.78	254,930,693.97
<b>EXPENDITURES AND TRANSFERS</b>			
Educational and general:			
Expenditures:			
Instruction	85,799,764.61	4,235,537.60	90,035,302.21
Research	9,210,099.42	17,048,758.31	26,258,857.73
Public service	5,692,560.49	4,349,858.57	10,042,419.06
Academic support	18,224,657.33	366,779.69	18,591,437.02
Student services	32,240,247.47	601,940.67	32,842,188.14
Institutional support	17,898,017.61	42,026.56	17,940,044.17
Operation and maintenance of plant	16,206,461.11	7,384.50	16,213,845.61
Scholarships and fellowships	4,499,659.57	12,585,393.60	17,085,053.17
Total educational and general expenditures	189,771,467.61	39,237,679.50	229,009,147.11
Mandatory transfers:			
Loan fund matching grant	12,693.00	-	12,693.00
Principal and interest	1,576,066.12	-	1,576,066.12
Nonmandatory transfers:			
Unexpended plant	234,092.25	-	234,092.25
Retirement of indebtedness	1,507,963.58	-	1,507,963.58
Total educational and general expenditures and transfers	193,102,282.56	39,237,679.50	232,339,962.06
Auxiliary enterprises:			
Expenditures			
Mandatory transfer:			
Principal and interest	2,447,005.79	-	2,447,005.79
Nonmandatory transfers:			
Unexpended plant funds	240,882.00	-	240,882.00
Renewals and replacements	973,217.77	-	973,217.77
Total auxiliary enterprises	13,108,145.57	17,079.44	13,125,225.01
Total expenditures and transfers	206,210,428.13	39,254,758.94	245,465,187.07
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)</b>			
Excess of restricted revenue over transfer to revenues	-	(148,860.27)	(148,860.27)
Indirect costs recovered	-	(3,456,241.95)	(3,456,241.95)
Refunded to grantor	-	(46,748.19)	(46,748.19)
Other deductions	-	(191,497.89)	(191,497.89)
Transfer to unexpended plant funds	-	13,186.92	13,186.92
Net increases in fund balances	\$ 5,319,882.06	\$ 315,463.46	\$ 5,635,345.52

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS  
THE UNIVERSITY OF MEMPHIS  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 2000

	Unrestricted	Restricted	Total
<b>REVENUES</b>			
Tuition and fees	\$ 64,325,043.58	\$ -	\$ 64,325,043.58
State appropriations	94,288,550.00	2,774,800.00	97,063,350.00
Federal grants and contracts	3,064,606.56	26,228,383.62	29,292,990.18
State grants and contracts	220,814.92	2,593,402.51	2,814,217.43
Local grants and contracts	1,185,666.87	577,557.78	1,763,224.65
Private gifts, grants, and contracts	5,333,388.29	6,478,226.89	11,811,615.18
Endowment income	-	1,645,791.13	1,645,791.13
Sales and services of educational activities	12,388,243.76	-	12,388,243.76
Sales and services of auxiliary enterprises	12,958,502.91	-	12,958,502.91
Other sources	2,709,295.73	169,960.07	2,879,255.80
Total current revenues	196,474,112.62	40,468,122.00	236,942,234.62
<b>EXPENDITURES AND TRANSFERS</b>			
Educational and general:			
Expenditures:			
Instruction	82,750,522.29	3,858,262.51	86,608,784.80
Research	9,063,853.97	16,579,710.12	25,643,564.09
Public service	5,436,912.93	4,553,804.50	9,990,717.43
Academic support	17,232,589.63	457,185.61	17,689,775.24
Student services	29,499,198.64	586,691.15	30,085,889.79
Institutional support	16,828,317.40	57,463.42	16,885,780.82
Operation and maintenance of plant	15,626,312.77	7,500.00	15,633,812.77
Scholarships and fellowships	4,807,790.92	10,683,282.97	15,491,073.89
Total educational and general expenditures	181,245,498.55	36,783,900.28	218,029,398.83
Mandatory transfers:			
Loan fund matching grant	6,254.00	-	6,254.00
Principal and interest	1,498,898.67	-	1,498,898.67
Nonmandatory transfers:			
Unexpended plant	414,772.45	-	414,772.45
Retirement of indebtedness	1,276,364.50	-	1,276,364.50
Total educational and general expenditures and transfers	184,441,788.17	36,783,900.28	221,225,688.45
Auxiliary enterprises:			
Expenditures			
Mandatory transfer:			
Principal and interest	1,775,118.95	-	1,775,118.95
Nonmandatory transfers:			
Unexpended plant funds	268,874.05	-	268,874.05
Renewals and replacements	1,098,442.75	-	1,098,442.75
Total auxiliary enterprises	11,601,472.46	17,271.90	11,618,744.36
Total expenditures and transfers	196,043,260.63	36,801,172.18	232,844,432.81
<b>OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)</b>			
Excess of restricted receipts over transfers to revenues	-	656,280.42	656,280.42
Indirect costs recovered	-	(3,564,689.89)	(3,564,689.89)
Refunded to grantor	-	(52,203.98)	(52,203.98)
Other deductions	(384,910.69)	(207,847.04)	(592,757.73)
Transfer to unexpended plant funds	-	(673,133.02)	(673,133.02)
Net increase (decrease) in fund balances	\$ 45,941.30	\$ (174,643.69)	\$ (128,702.39)

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents  
The University of Memphis  
Notes to the Financial Statements  
June 30, 2001, and June 30, 2000**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

**Basis of Presentation**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The university uses the AICPA College Guide model for accounting and financial reporting.

**Basis of Accounting**

The financial statements have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended or all eligibility requirements have been met. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement; and (3) nonmandatory transfers, for all other cases.

**Tennessee Board of Regents  
The University of Memphis  
Notes to the Financial Statements (Cont.)  
June 30, 2001, and June 30, 2000**

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**Fund Accounting**

To ensure observance of limitations and restrictions placed on the use of the resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues when expended or all eligibility requirements have been met and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include both university operated and contracted Food Services, Housing, the University Store, and other auxiliary enterprises. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

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Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Term endowment funds are similar to endowment funds, except that after a stated period of time or a particular event, all or part of the principal may be expended. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties; and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the university acts solely as an agent; consequently, transactions of these funds do not affect the university's operating statements.

**LGIP Deposit – Capital Projects**

Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

**Inventories**

Inventories are valued at the lower of cost or market. All items are maintained on an average cost or first-in, first-out basis.

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**Checks Payable**

These amounts represent the sum of checks written in excess of the university's checking account balance because of the university's use of a controlled disbursement account. Through the use of a controlled disbursement account, the university maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

**Compensated Absences**

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

**Allocation for Working Capital**

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

**Plant Assets**

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values, which approximate current costs. Livestock is valued at estimated market value. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the university charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

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**Interest Costs**

The university has adopted a policy of capitalizing all construction-related interest costs for capital projects funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed.

**Federal Direct Loan Program**

The university participates in the Federal Direct Loan Program. Activity of this program is not included in the financial statements of the university. The university acts as an agent for the U.S. government in disbursing funds to students.

**NOTE 2. CASH**

This classification includes demand deposits and petty cash on hand. At June 30, 2001, cash consisted of \$6,710,832.83 in bank accounts, \$76,460.00 of petty cash on hand, and \$23,567,991.43 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 2000, cash consisted of \$2,000.00 in bank accounts, \$72,475.00 of petty cash on hand, and \$30,965,647.84 in the State of Tennessee Local Government Investment Pool.

**NOTE 3. DEPOSITS**

The bank balances of certain deposits including accrued interest as of the balance sheet dates were entirely insured or collateralized with securities held by the university's agent in the university's name.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

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The university's remaining deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 4. INVESTMENTS**

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The university's investments are categorized below to indicate the level of risk assumed by the university at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university or its agent in the university's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the university's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's name.



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<u>June 30, 2001</u>	<u>Fair Value</u>
Category 1:	
U.S. government securities	\$29,680,972.99
Commercial paper	4,960,846.11
Categories 2 and 3:	-
Certificates of deposit classified as investments	200,000.00
Total investments on the balance sheet	<u>\$34,841,819.10</u>
 <u>June 30, 2000</u>	 <u>Fair Value</u>
Category 1:	
U.S. government securities	\$30,188,410.18
Commercial paper	4,928,820.82
Categories 2 and 3:	-
Certificates of deposit classified as investments	200,000.00
Total investments on the balance sheet	<u>\$35,317,231.00</u>

**NOTE 5. PLANT FUND ENCUMBRANCES**

Plant fund encumbrances outstanding at June 30, 2001, amounted to \$21,627,383.37 for unexpended plant and \$847,439.97 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 2000, amounted to \$6,135,754.93 for unexpended plant and \$1,162,862.56 for renewals and replacements.

**NOTE 6. TSSBA INDEBTEDNESS**

Bond issues, with interest rates ranging from 3.0% to 7.15% for Tennessee State School Bond Authority bonds, are due serially to 2030 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the balance sheet is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was \$663,968.89 at June 30, 2001, and \$663,968.89 at June 30, 2000.

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The university's debt service requirements to maturity for all bonds payable at June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$2,590,956.99	\$3,161,100.33	\$5,752,057.32
2003	2,742,399.92	3,013,345.54	5,755,745.46
2004	3,087,700.01	2,854,575.00	5,942,275.01
2005	2,583,357.53	2,676,513.04	5,259,870.57
2006	2,399,034.61	2,522,072.95	4,921,107.56
2007-2030	36,393,138.82	27,893,536.43	64,286,675.25
	<u>\$49,796,587.88</u>	<u>\$42,121,143.29</u>	<u>\$91,917,731.17</u>

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the university was \$1,257,309.13 at June 30, 2001, and \$29,955,716.02 at June 30, 2000.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

**NOTE 7. PENSION PLANS**

**A. Defined Benefit Plans**

**1. Tennessee Consolidated Retirement System**

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37,

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*Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2001, 2000, and 1999, were \$3,138,311.69, \$2,361,802.02, and \$2,404,821.43. Contributions met the requirements for each year.

**B. Defined Contribution Plans**

**Optional Retirement Plans (ORP)**

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association—College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was \$7,250,247.16 for the year ended June 30, 2001,

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and \$5,766,371.10 for the year ended June 30, 2000. Contributions met the requirements for each year.

**NOTE 8. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 9. OTHER ADDITIONS AND DEDUCTIONS**

The following amounts are included as “other additions” and “other deductions” on the Statements of Changes in Fund Balances:

	<u>Year Ended June 30, 2001</u>	<u>Year Ended June 30, 2000</u>
<b>Other Additions</b>		
Loan:		
Refund on loan cancellations	\$25,282.00	\$14,885.00
Loan processing fees	\$8,620.00	\$30,390.00
Recovery of collection costs and administrative allowances	\$51,019.33	\$4,869.51
Endowment:		
Income from repayment of loans	\$59,196.76	\$73,829.03
Reversion to principal	\$80,018.38	\$72,054.36
Unexpended plant:		
Proceeds from disposal of assets	\$300.00	\$ -
MMH architects/planners settlement for parking garage	\$55,000.00	\$ -

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	<u>Year Ended June 30, 2001</u>	<u>Year Ended June 30, 2000</u>
Investment in plant:		
Capitalized interest during construction	\$645,653.26	\$1,104,730.31
Net value changes and miscellaneous adjustments	\$82,576.83	\$3,068.26
 <b>Other Deductions</b>		
Unrestricted:		
Return of Tennessee Small Business Development Center net carryforward funds to Tennessee Board of Regents	\$ -	\$ 384,910.69
Restricted:		
Program administration	\$80,515.00	\$82,442.00
Residual transferred to current unrestricted	\$30,964.51	\$53,350.68
Scholarship funds reverted to endowment	\$80,018.38	\$72,054.36
Loan Funds		
Balance reverted to endowment	\$47,703.27	\$44,844.26

**NOTE 10. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended June 30, 2000, the threshold for capitalizing equipment increased from \$1,000 to \$5,000. As a result of the change, equipment decreased by \$29,506,747.77.

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**NOTE 11. INSURANCE-RELATED ACTIVITIES**

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. The final settlement of \$8.96 million for the tornado damage in Clarksville was made during the year ended June 30, 2001. In the years ended June 30, 2000, and June 30, 1998, the state did not have any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million at June 30, 2001, and \$7.256 million at June 30, 2000, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2001, the scheduled coverage for the university was \$414,912,300 for buildings and \$288,533,200 for contents. At June 30, 2000, the scheduled coverage was \$397,022,900 for buildings and \$284,961,700 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims

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servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

**NOTE 12. FEDERAL STUDENT FINANCIAL ASSISTANCE**

The restricted expenditure function scholarships and fellowships includes \$10,679,571.19 of federal financial assistance for students. These programs include but are not limited to Federal Pell Grants, Federal Supplemental Educational Opportunity Grants, and Federal Work Study.

**NOTE 13. COMMITMENTS AND CONTINGENCIES**

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$50,064,584.77 at June 30, 2001, and \$47,385,069.16 at June 30, 2000.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$1,262,953.23 and for personal property were \$290,123.18 for the year ended June 30, 2001. Comparative amounts for the year ended June 30, 2000, were \$1,078,790.66 and \$200,859.59. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2001, outstanding commitments under construction contracts totaled \$22,474,823.34 for University Library, Information Science Building, University Service Court, Wilson Hospitality Education Center, Student Activities Complex, Athletic Training Center Addition and Modification, Brick and Façade Repairs, Accessibility (ADA), Brister Facility Adaptive Reuse, Fume Hood Upgrades, and Network Services of which \$11,300,855.97 will be funded by future state capital outlay appropriations.

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Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

**NOTE 14. AFFILIATED ENTITY NOT INCLUDED**

The university is the sole beneficiary of the University of Memphis Foundation. This private, nonprofit foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are not handled by the university, and these amounts are not included in the university's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 2000, the foundation's assets totaled \$73,405,017, liabilities were \$902,804, and the fund balance amounted to \$72,502,213.

**NOTE 15. CHAIRS OF EXCELLENCE**

The university had \$57,708,669.16 on deposit at June 30, 2001, and \$59,723,505.63 on deposit at June 30, 2000, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

**NOTE 16. FUNDS HELD IN TRUST BY OTHERS**

The university is a beneficiary under the Van Vleet, the Mike Driver, the Pope M. Farrington, the C. M. Gooch, and the Herbert Herff trusts. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received \$1,079,045.79 from these funds during the year ended June 30, 2001, and \$581,241.28 during the year ended June 30, 2000.

**NOTE 17. PRIOR-YEAR RESTATEMENT**

During the year ended June 30, 2001, there was a change in accounting policy whereby it was decided that unexpended debt proceeds, which had previously been reported as an asset, funds on deposit with State Treasurer, should be netted against



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the bonds payable liability. As a result, prior-year amounts were restated as noted below:

<u>Fund</u>	<u>Account</u>	<u>Amount</u>
Exhibit A		
Unexpended plant	Funds on deposit with State Treasurer	\$ (2,304,026.94)
Unexpended plant	TSSBA Indebtedness	\$ (2,304,026.94)

During the year ended June 30, 2001, the university implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As a result, prior-year amounts were restated as noted below:

<u>Fund</u>	<u>Account</u>	<u>Amount</u>
Exhibit E		
Restricted	Auxiliary enterprise revenues	\$ (17,271.90)
Restricted	Excess of restricted receipts over transfers to revenues	\$ (3,666,949.82)
Restricted	State appropriations	\$ (202,512.22)
Restricted	Federal grants and contracts	\$ 3,029,142.65
Restricted	State grants and contracts	\$ 213,268.12
Restricted	Local grants and contracts	\$ 173,925.39
Restricted	Private gifts, grants, and contracts	\$ 209,518.48
Restricted	Endowment income	\$ 91,558.96
Restricted	Other Sources	\$ 169,320.34

**NOTE 18. NEW ACCOUNTING PRONOUNCEMENTS**

In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, an amendment of GASB Statement No. 34. As originally issued, Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for States and Local Governments* was not applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending

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Statement 34 to extend its applicability to them. Statement 35 supersedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements—the AICPA College Guide model or the governmental model. As component units of a state government, most public institutions will implement GASB Statement 35 at the same time as the state government implements GASB Statement 34.

Under the provisions of the GASB standards, the university is permitted to report as a special purpose government engaged only in business-type activities (BTA). BTA reporting will require the university to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management's discussion and analysis; a statement of net assets or a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; notes to the financial statements; and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements are not required for BTA reporting.

Statement 34 will also require the university to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads and bridges) in the statement of net assets and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the university's financial statements.